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Agency Plan

OCT 21 1985

MEMORANDUM FOR: Chief, Legislation Division
Office of Legislative Liaison

FROM: Robert W. Magee
Director of Personnel

SUBJECT: Proposed Change in Retirement Benefits for
Part-Time Employees

REFERENCE: OLL 85-3072/1, dated 8 October 1985

1. You have asked for our views concerning an OPM draft bill which would change the method of computing Civil Service retirement benefits for part-time employees.

2. Under current law, part-time employees covered by the Civil Service Retirement System receive full service credit for their part-time service, but in computing their annuities their basic pay is prorated based on the percentage that the employee's part-time schedule is of a full-time schedule. Ordinarily this formula yields annuities that reflect the part-time nature of the service, so that an employee who had worked 20 hours per week for a whole career would receive an annuity half as large as that received by an equivalent full-time employee. But if an employee with long part-time service converted to full-time for the last three years of his or her career, the resulting increase in "high-three" average pay would produce an annuity fully equal to that received by an equivalent employee who had worked full-time throughout an entire career.

3. The OPM draft bill is designed to close this loophole or potential abuse in the current system, by requiring that in calculating the annuity of an employee any of whose service has been part-time, the average pay (whether or not it includes pay for service on less than a full-time basis) will be determined on the basis of the full annualized rate of pay for the individual's position; but the benefit obtained using that pay figure under the normal annuity formula then will be multiplied by a fraction expressing the ratio between the employee's actual amount of service and the total amount of service that would be creditable for the employee if all of the employee's service had been performed on a full-time basis. In short, under current law, the annuity for a part-time employee is calculated using full service credit but prorating salary; under the proposed change, the annuity would be calculated using full-time annual rates of pay but only proportional service credit. The proposal would not affect the current full crediting of part-time service for purposes of eligibility for an annuity.

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4. While we are not opposed to closing loopholes, the proposed legislation
may engage in overkill. As we understand it, the new method of computing
annuities for part-timers would apply not only to someone who worked 27 years as
such and then converted to full-time status for their final three years, but
also to an employee who worked his first three years as a part-timer and his
last 27 as a full-timer or an employee who worked 27 years full-time and then
three years part-time. While it is arguable and logical that a 27-year full-timer
should not receive the same annuity as someone who worked 30 years' full-time,
it is not clear that the significantly increased per-case processing time and
complexity of annuity calculation which may be entailed in such instances
really would be justified on "closing a loophole" grounds. Allowing a 27-year
full-timer to receive "full-time" annuity benefits does not strike us as a
serious abuse, warranting application of the new computational method proposed,
given the mathematical and records review intricacies likely to result.

5. Accordingly, we believe that the legislation should be limited in
some fashion, if possible, to zero in more precisely on the potential abuse
situations--perhaps by specifying that the new computational method will be
applied only when the major or preponderant part of an employee's career (some
fraction more than half, say) has been spent as a part-timer.

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